Made in Italy Fund

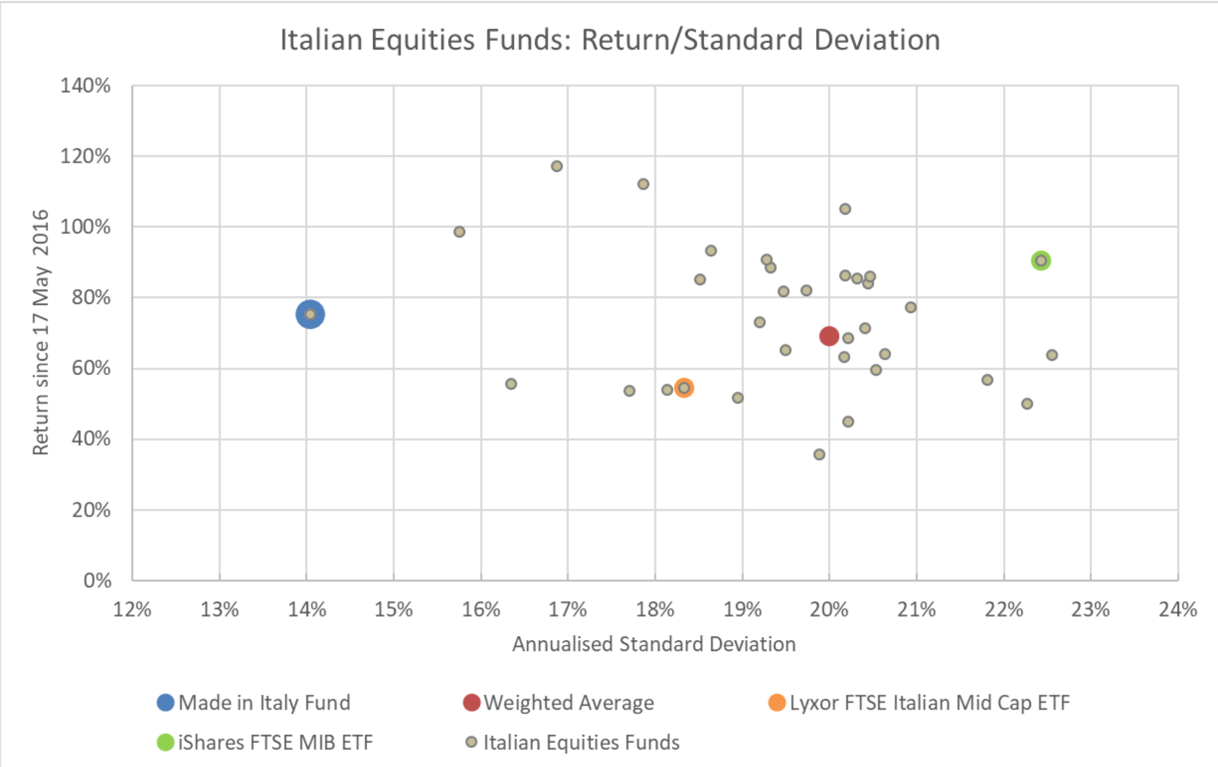
Bayes Investments

Investor letter – First Quarter 2023

Dear Fellow Investors,

The Made in Italy Fund (MIF) had a return of 8.1% in the first quarter of 2023. The return since inception (17 May 2016) is 75.2%. Returns are net of fees and all administration costs.

The MIF remains ahead of the Italian Equities fund universe, whose weighted average return since our inception is 69.0%:



Source: Factset

The MIF return is significantly higher than the 54.6% return of the most comparable ETF – the Lyxor Mid Cap Fund – but is temporarily behind the 90.5% return of the main Italian Equities ETF – the iShares FTSE MIB.

The MIF return continues to be accompanied by lower volatility. The annualised standard deviation of its daily returns is 14.0%, compared to 20.0% for the weighted average fund, 18.3% for the Lyxor ETF and 22.4% for the iShares ETF.

First Quarter 2023

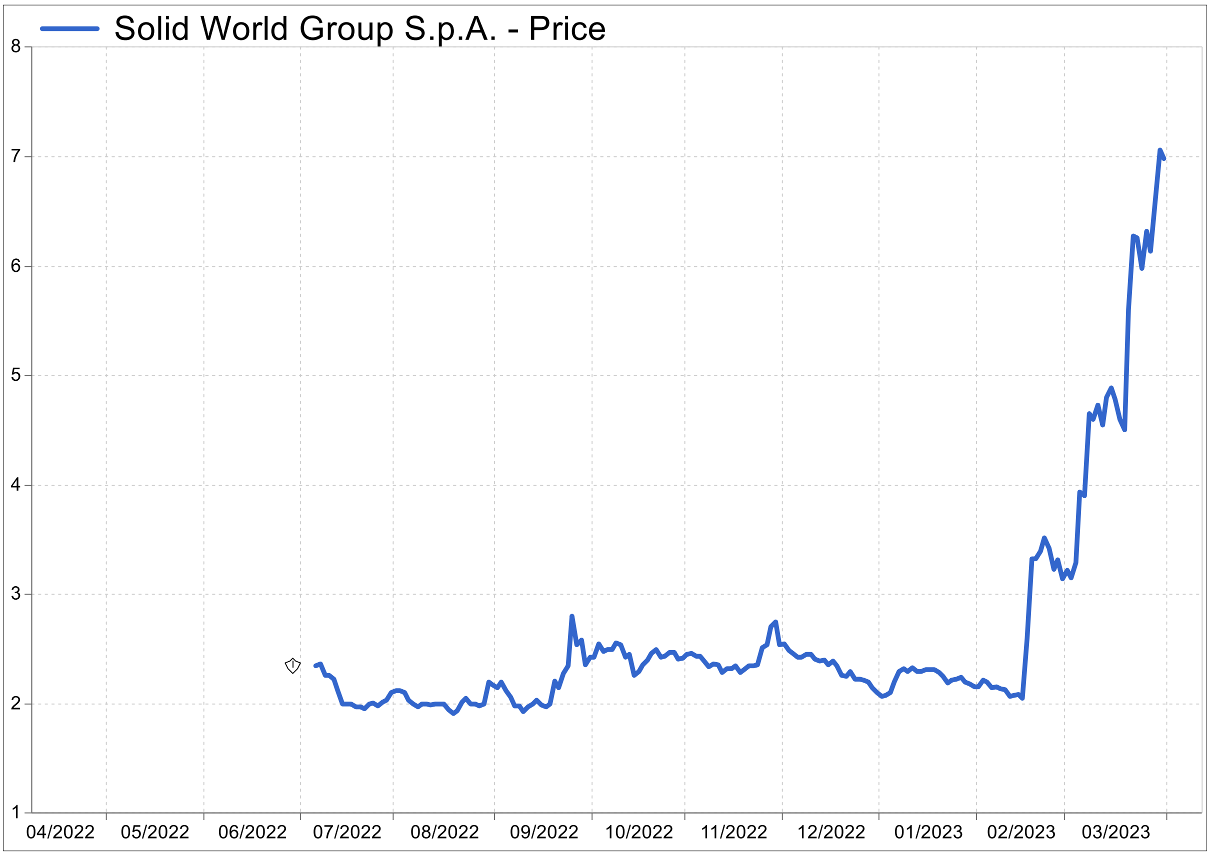
Our 8.1% return for the quarter compares with a weighted average return of 11.2% for the Italian Equities universe, 10.9% for the Lyxor ETF and 15.0% for the iShares ETF.

World equities staged another strong performance in the first quarter of the new year, particularly in January. In the US, the S&P 500 index ended the quarter up 7.5%, after a fall of -18% in 2022. The Nasdaq index, which had seen a -32% fall last year, had a stronger rebound, up 17%. In Europe, the Euro STOXX index, which ended 2022 down -12%, was up 12% in the quarter. Once again, Italian stocks did particularly well, with the MIB index up 15%, thus recouping the entire -9% fall in 2022. And once again, smaller capitalisation stocks had a more subdued performance, with the Euro STOXX Small and the Italia Small Cap indices both up 8%, following a fall of -15.5% and -12% respectively in 2022. The smaller cap Italia Growth index, however, which fell -19.5% in 2022, limited its first quarter rebound to 1.5%.

Our Fund ended the quarter significantly ahead of the Growth index, which includes most of its holdings, and in line with the Small Cap index, while again underperforming – as it did in the second half of 2022 – the large cap MIB index. Noticeably, however, the underperformance was concentrated in January, whereas our return was in line with the MIB index in February and significantly ahead in March. This is in accordance with our forecast and bodes well for our future performance, where – as it happened before – we expect a catch up with large caps.

Many of our stocks did well in the quarter. As we have done in past letters, we highlight the first three.

We start with the stellar performance of our recent IPO **Solid World Group**, whose price climbed 232% from 2.1 euro at the start of the year to 7 euro at the end of the quarter.



We introduced the company in the Q3 2022 letter, having bought the stock at IPO in early July at 2 euro and having increased the position shortly thereafter at 2.2 euro. The stock ended its initial quarter up 22%, but then fell -14% in Q4, ending the year back to near the IPO price. At the IPO we also received free warrants, strike price 2.2, which started trading at 0.3 euro and ended this quarter at 1.1.

Established in 2004, the company specializes in 3D Digital System Integration. It comprises 11 entities that cover all phases of the 3D Digital Manufacturing process. It operates throughout Italy via 14 branches and 3 technological hubs, offering a wide range of services, including 3D printing, training, and support for design and production departments in modern Italian production companies. Its BIO3DMODEL division operates in the biomedical sector, providing consulting services, segmentation software, printers, and viewers to clinics and hospitals. The company supports customers that are transitioning to 3D-printing design and structuring processes, assisting them in implementing new technologies for prototyping and manufacturing products. It offers hardware solutions such as 3D printers, 3D scanners and measuring arms, as well as additive production activity through 3D printers that use a stratification process starting from 3D CAD design models. Additionally, it offers third-party and proprietary software, which completes the wide range of solutions for companies in the field of manufacturing and digital production processes.

Solid World has grown over the years by integrating complementary companies in its area of interest and currently has 170 employees located in its operational offices and technological hubs. The Ponzano Veneto technological hub is the most comprehensive 3D digital laboratory for additive manufacturing and 3D scanning, with an area of 2,000 square metres. The Bentivoglio hub, near Bologna, offers group and individual courses taught by specialized and certified technicians, while the Sambuca hub, near Florence, represents the centre of competence in the biomedical field.

The market for 3D printing and additive manufacturing is growing rapidly across various industries due to the need for customized and complex products, faster prototyping, and production. Furthermore, the pandemic has highlighted the importance of supply chain resilience, which can be improved through on-demand manufacturing and 3D printing. Solid World's focus on providing end-to-end solutions and services for 3D printing and additive manufacturing positions them well to benefit from this market growth.

The price rise started in mid-February after a press release in which the company announced the production of Electrospider, a 3D bioprinter that replicates human tissue. This was not entirely news to us – the CEO Roberto Rizzo had told us about important developments to come in the BIO3DMODEL division since our first meeting before the IPO. But it did surprise the market, which until then had taken little notice of Solid World.

This goes to highlight two central points of our investment process: 1) the importance of country focus. Solid World would remain – and still is – undetected by a superficial pan-European approach. 2) The value of future growth. Solid World looked expensive on current valuation metrics even at 2 euro – let alone now at 7. But it isn't, once the present value of future growth opportunities is properly accounted for.

The second best performer in the quarter was **The Italian Sea Group**, up 45%.

We introduced the company in the Q2 2021 letter, after buying its shares in the IPO at 4.9 euro in early June. We subsequently increased our position in various steps, taking advantage of price drops.

The company is a leading international luxury yacht manufacturer specializing in the design and construction of motor and sailing yachts ranging from 17m to over 100m. Its history dates back to 2009, when it was established under the name Tecnomar. Since then, the company has made strategic acquisitions of influential Italian yacht brands, expanding its portfolio to include five brands: Tecnomar, Admiral, NCA Refit, Picchiotti and Perini Navi, each with its unique product line, brand identity, and naval heritage.

The company ranks first in terms of yachts ordered in Italy and fourth globally for the construction of yachts over 50 metres. Its brand portfolio covers a wide range of yacht types, catering to a broad customer base. Picchiotti, the oldest brand dating back to 1575, specializes in building 'Gentlemen Yachts' between 24 to 55 metres. Tecnomar produces speedy motor yachts, while Admiral builds motor yachts beyond 50 metres. Perini Navi focuses on large sailing yachts, while NCA Refit offers maintenance and refitting services to both motor and sailing yachts.

Over the past 13 years, the company has expanded its presence in the luxury yacht market by forming strategic partnerships with renowned brands such as Lamborghini and Giorgio Armani. Through these partnerships, the Group offers exclusive limited-edition yachts with recognizable design and high desirability.

The company's financial results underscore its market appeal, with an order book growing at an average 44% per year since 2018, reaching 1 billion euro in 2022. Revenues and EBITDA margins have substantially increased during the period, growing from 67 million to 295 million and from 9% to 16% respectively.

Again, proximity to the top management, regular visits to the company's headquarters and ongoing conversations allowed us to keep the necessary focus and ride through price volatility, with the stock reaching a trough of 4.1 euro in October last year before doubling to 8.2 by the end of March.

The same occurred with **Growens**, our third best performer in the quarter, up 40% to 6 euro.

We introduced the company in the Q1 2019 letter, when it was called MailUp, after buying it in November 2018 at 2.5 euro.

The company operates in the space of cloud-based Marketing Technology with, until recently, five integrated business units: 1) MailUp, the original email service provider; 2) Agile Telecom, a delivery operator for promotional and transactional SMS messages; 3) Acumbamail, an email marketing service provider for Spain and Latin America; 4) Bee, an email template builder software provider; 5) Datatrics, an AI-driven Predictive marketing platform.

After our purchase, the stock had a strong performance in the subsequent two years, reaching a peak of 5.6 euro in September 2020. But then it stalled and declined, touching a trough of 3.8 euro at the end of last year, until it finally rerated in early February this year, after the company announced the sale of MailUp and related businesses, and of Acumbamail, for a total consideration of 70 million euro – more than the entire market capitalisation of the company at the time – with the goal of concentrating resources in the fastest-growing and more profitable businesses, primarily Bee.

Other stocks had a quarterly performance in excess of 20%: Allcore +31%, Datrix +24%, Circle +23% and Bifire +22%.

Our top holding EdiliziAcrobatica also did well, up 13% in the quarter. We last highlighted the company in our Q3 2022 letter, mentioning the presentation we had given at the MOI Global European Investment Summit. We presented the company again in March this year at the Value Spain conference in Madrid.

On the negative side, Cofle, ESI and Farmacosmo were down -16%; Medica and Abitare In -14%, the recent IPO Erredue and Estrima -13%.

During the quarter we exited two positions and participated in three new IPOs:

Valtecne. The company is a precision mechanics manufacturer with over 40 years of experience in the industry. It operates as a make-to-order supplier for Original Equipment, serving as a first, second or third level supplier. It has two main business segments: industrial and medical devices. The industrial segment produces high-precision mechanical components in various sectors, such as power transmission, automotive, and energy. The medical devices segment specializes in the manufacturing of instruments for orthopaedic surgery and implantable components, particularly for joint reconstruction orthopaedics.

The use of high-tech machinery enables the company to undertake complex manufacturing processes, managing the entire end-to-end production. Sophisticated machinery and rigorous quality control has built the company's reputation as a reliable and exact manufacturer, especially crucial in the medical segment.

The company has a market capitalisation of 34 million euro and 2022 revenues of 24 million euro, with EBITDA of 5.5 million and Net Income of 2.5 million. We paid 5 euro per share at the IPO in late February. The stock ended the quarter at 5.4.

Gentili Mosconi. The company manufactures, designs and prints high-end fabrics for luxury brands. It positions itself as a textile "converter", offering bespoke processing and printing for the luxury fashion sector. It does so by controlling the entire value chain, from sourcing to quality control, but outsourcing intermediate production phases to external partners, thus ensuring flexibility and fast time to market. Gentili Mosconi has long-lasting relationships with main luxury brands and generates over 80% of its revenues from its top ten clients, with an average tenure of over ten years. The Italian market of fabric conversion for fashion and luxury is a niche market, with barriers to entry such as the "Made in Italy" label, historical know-how in processing the finest materials, and strong relationships with luxury brands.

The company has a market capitalization of 72 million Euro, 2022 revenues of 53 million, EBITDA of 8.6 million and Net Income of 6.8 million. We paid 3.75 euro per share at the IPO in early March.

Reway Group. The company is active in the restoration of road and motorway infrastructures. It was established in 2021 to unify three subsidiaries: MGA operates in the restoration of tunnels and viaducts; Soteco deals with the lighting and draining finishing and coating of tunnels and the installation of sound-absorbing and safety barriers; TLS specializes in construction site engineering and extraordinary motorway maintenance, in particular in the seismic adaptation of bridges and viaducts.

The company participates in public contracts, generally in the form of framework agreements, direct contracts, and subcontracting for other operators. The customers are construction companies of large works, motorway concessionaires, and road and motorway managers.

It has a market value of 133 million euro, 2022 revenues of 111 million, EBITDA of 20 million and Net Income of 12 million. We paid 3.1 euro per share at the IPO in early March.

The current sector composition of the Fund is the following:

	Number of companies	% Weight
Producer Manufacturing	7	13.8%
Electronic Technology	3	4.6%
Process Industries	1	1.6%
Consumer Non-Durables	1	1.3%
Consumer Durables	5	14.6%
Industrial Services	2	3.2%
Commercial Services	5	10.8%
Consumer Services	3	5.9%
Technology Services	8	20.0%
Distribution Services	1	5.6%
Health Technology	2	4.4%
Retail Trade	1	3.2%
Communications	1	1.8%
Finance	3	3.6%
Utilities	1	1.2%
Total	44	95.7%
Warrants + cash		4.3%

A single-country fund? What's the point?

What do such diverse companies as Solid World, The Italian Sea Group, Growens and EdiliziAcrobatica have in common? Nothing, except that they are based in Italy and quoted on the Italian stock market. Surely, this should be utterly irrelevant: why would the place where a company is quoted have anything to do with its fundamental value? Still, it is the common destiny of all Italian-quoted companies to face four major headwinds:

1. Financial advisors: The Italian stock market is small and unexciting. Go global.
2. Macroeconomists: Italy has long-standing structural problems. Stay away.
3. Asset allocators: Italian equities are underperforming and unattractive. Go Pan-Europe.
4. Value investors: Why restrict the universe of choice to one country?

The Made in Italy Fund shares this destiny and, as our regular readers will remember, we have repeatedly defended our one-country focus against each of those headwinds. Let's summarise our points:

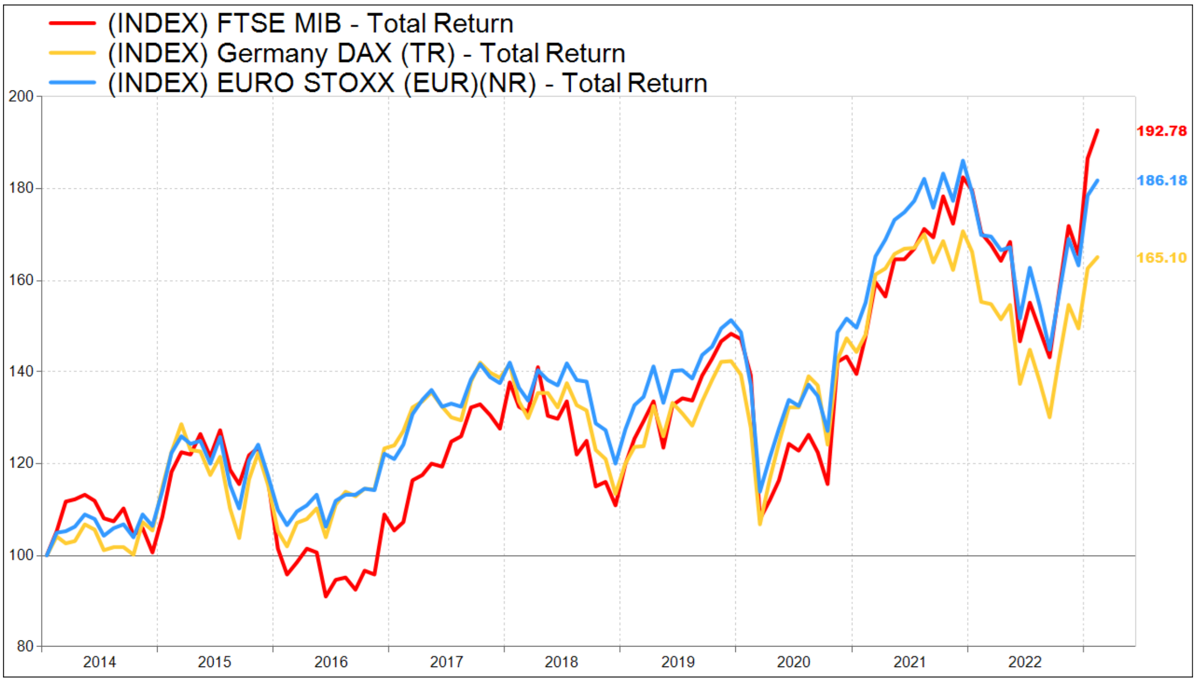
1. Global diversification is a valid practice. But it does not mean that it should simply reflect market capitalisations. The Italian stock market is small: there are approximately 400 quoted companies, for a current total market cap of 690 billion euro – that is 29% of the market cap of Apple. But so what? Apple's market value of 2.4 trillion euro is more than 6 times its revenue of 360 billion. In

comparison, the total revenue of companies quoted on the Italian stock market is currently 990 billion, 2.7 times Apple's revenue. But the Italian total market cap is 0.7 times total revenue. Why? Simply because Italian companies with the largest revenues – Stellantis: 180 billion, Enel: 136, ENI: 132, Assicurazioni Generali: 88, and so forth – are not as 'exciting' as Apple and have much lower valuations. Does this imply that a global investor should have three times as much money invested in Apple than in the entire Italian stock market? Surely not. Global diversification should be driven by many more considerations than simple market cap. In particular, it makes no sense that Italian long-term institutional investors – pension and welfare funds as well as insurance companies – have little exposure to Italian equities, and absolutely no exposure to the many excellent and attractive smaller companies quoted in their own country.

2. We have said this many times: Italy has never looked like a particularly attractive place to invest from a top-down, macroeconomic perspective. But the Italian stock market has always been a good place for bottom-up stock picking, aimed at finding companies with high growth prospects, strong and sustainable profitability and attractive valuations. Equity investors buy companies, not countries. What does Solid World have to do with Italian GDP growth, budget deficit and interest rates?

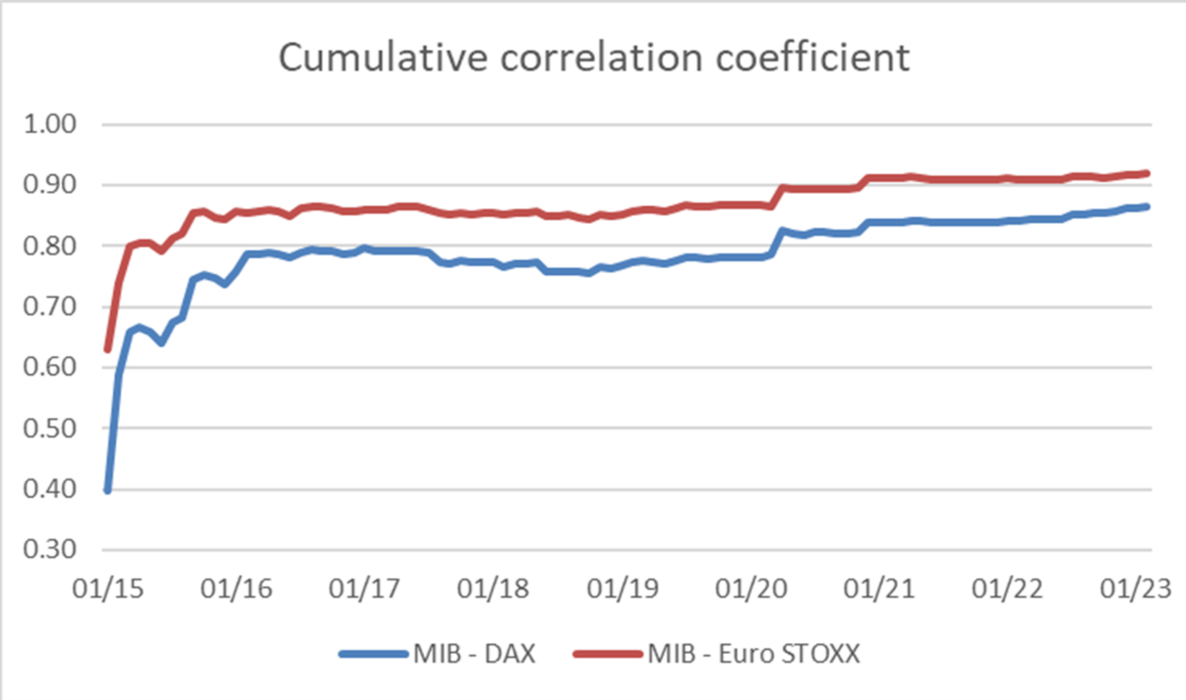
   By the way, does any other European stock market look attractive from a top-down perspective? What does that even mean? A top-down viewpoint makes some sense when it comes to investing in Emerging and Frontier markets. But it is an eminently lazy and pointless asset allocation exercise in developed markets.

3. We talked at length on this in our Q2 2020 letter. The supposedly chronic underperformance of Italian equites is a fiction, hanging on a short period of market turbulence around the early 2010s. Since 2014, Italian equities have been performing in line with the rest of Europe. Here is the updated graph:



Source: Factset

And here is the cumulative correlation coefficient of monthly returns over the period:



Source: Factset. Our calculations

In our Q2 2021 letter we called this the illusion of European geographical diversification:

> There used to be a time, in the '80s and '90s of last century, when it made sense to distinguish among European stock markets and think about country allocation. But as European integration progressed in the new century, national indices became more closely correlated and country allocation was steadily replaced by a pan-European approach.
>
> What's the point of distinguishing between Italian and German stocks when their index returns are 90% correlated? The advantage of pan-European investing is not in the ability to allocate among countries but in the breadth of stock picking opportunities.

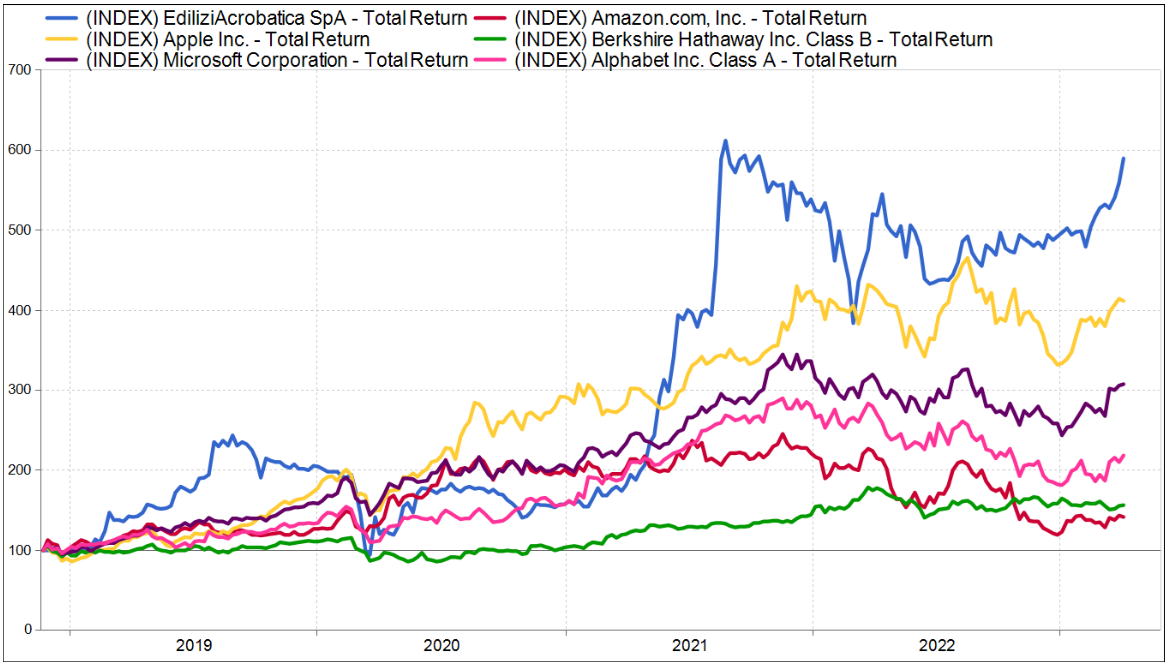
4. This brings us to our fourth and final point. Quoting from the same letter:

> Why limit the choice to a few hundred Italian stocks when one can select among thousands across Europe? This is a fair question. But we have an answer: intension versus extension. It is obviously true that a larger universe of choice contains a larger number of attractive investments. In fact, most 'value investors' like us favour a global, unconstrained approach, allowing them to pick any great company, wherever it happens to be quoted. This sounds good, and there is nothing wrong with it – as long as one is able to recognise that there is a practical trade-off between width and depth.

Paraphrasing the rest of the passage, it is true that the universe of choice of pan-European investors includes Solid World. But how many of them know the company, own it, let alone bought it at the IPO at one third of today's price?

A few of them may have looked at some numbers, read some report, even sat in a group meeting with the company management at some conference. But is that enough to take a meaningful position in the stock? That is why, while spoilt for choice in theory, most global value investors only own a few Italian companies in practice – Stellantis, Exor and Ferrari have been recent favourites – but only very few have the dedication and the resources to venture a little deeper.

So here is the point of the Made in Italy Fund: one can know a little about a lot of companies, or a lot about fewer companies. We have chosen the latter path, focusing on a place – the Italian stock market – which is and will continue to be full of excellent investment opportunities:



Source: Factset. Total returns in EUR

DISCLAIMER

This document has been prepared by Bayes Investments Ltd, registered in England and Wales. Bayes Investments Ltd is an Appointed Representative of New College Capital Ltd. New College Capital (FRN 430986) is authorised and regulated by the UK Financial Conduct Authority (FCA).

This document is not intended for retail customers or any person or entity that is a resident of or located in any jurisdiction where such distribution or use would be in contravention of law or regulation. This document is intended for Relevant Persons, i.e. those who benefit from an exemption under Rule 4.12 of the FCA's Conduct of Business Sourcebook ("COBS"), or from an exemption under FSMA (Promotion of Collective Investment Schemes) (Exemptions) Order 2001.

Investments are subject to a number of significant risks. Investors should refer to the Atomo Sicav Prospectus, which contains details of these risks. Any past performance contained herein is not an indication of future performance. The value of investments and income from them may fluctuate. Investors should have the financial ability and willingness to accept such risks for an indefinite period of time, and the loss of the entire investment.

This document may contain forward looking statements, terms and expressions. These contain certain risks and uncertainties that could lead to significant variations against expectations. No assurances can be given in this regard. Whilst Bayes Investments Ltd has taken all reasonable steps to ensure that the information contained within these pages is accurate and up to date, no liability can be accepted for any error or omissions appearing in this document. If you are in any doubt as to the validity of information made available within these pages, you should seek verification and/or contact us.

Nothing in this document is intended to constitute a financial promotion for the purposes of section 21 of the Financial Services and Markets Act 2000. The contents of this document are provided for general information purposes only and is not investment advice. In addition, nothing on this document amounts to a personal recommendation or advice on the merits of any transaction or service. Bayes Investments Ltd is therefore not responsible for providing you with protection and you should seek your own legal, investment and tax advice before acting on anything contained in this document.

Professional advice should always be sought before acting or relying on any of the information, and we accept no responsibility for any loss which may arise from reliance on the information in our document.